

2008 Medical Care and Dependent Care Flexible Spending Accounts Grace Period Questions & Answers

Internal Revenue Service Notice 2005-42 permits a grace period of 2 months and 15 days following the end of each plan year during which unused contributions in either your Health Care or Dependent Care Spending Account may be reimbursed for qualified expenses incurred during the grace period.

This means that since the State of Michigan's 2008 Spending Account plan year will end on December 31, 2008, you may incur qualified expenses through March 15, 2009, and use any remaining funds from your 2008 plan year account, as long as you are an active participant in the Health Care or Dependent Care Spending Account on December 31, 2008. If you are no longer employed with the State of Michigan on December 31, 2008, you may choose to continue participating in your Health Care Spending Account by paying your contributions through COBRA. Your Dependent Care Spending Account cannot be continued through COBRA.

Note: The IRS grace period ruling also applies to current 2007 participants. You will have until March 15, 2008, to incur eligible expenses for the 2007 plan year. The deadline for claims submissions for 2007 expenses is April 15, 2008.

The grace period should not be confused with the run-out period, which is the period during which you may submit claims for reimbursement out of your prior plan year's account. The State of Michigan's run-out period ends on April 15. This means that you will have until April 15 to submit claims for reimbursement for expenses for the prior plan year.

The following are some basic questions and answers to help you understand how Internal Revenue Notice 2005-42 may affect your Health Care or Dependent Care Spending Accounts.

What happens to my claims during the grace period if I have a Flexible Spending Account for 2007 and 2008 and have money left in my 2007 account?

If you have a 2007 FSA and have money left in your account after December 31, 2007, you may incur claims from January 1, 2008 through March 15, 2008, pay for the expense and submit an ADP Claim Reimbursement form to ADP. Your claim(s) will be paid from your 2008 account, then after April 15 the appropriate amount of money will be transferred from your 2007 account into your 2008 account. This is true if you send in a hard copy claim or, in the case of the Health Care Spending Account, if you use your Health Care Debit Card.

What happens to my claims during the grace period if I have a Flexible Spending Account for 2007 and have money left in the account but do not have a 2008 account?

If you have a 2007 FSA and have money left in that account after December 31, 2007, you may incur claims from January 1, 2008 through March 15, 2008, pay for the expense and submit an ADP Claim Reimbursement form to ADP. Your Health Care Spending Account Debit Card will be inactivated after December 31, 2007. Your eligible claim(s) will be paid up to the balance remaining in your 2007 account.

How should I calculate my future annual contributions for my flexible spending accounts?

You should continue to use only the calendar year (12 months) for calculating expenses for your flexible spending accounts. The IRS notice is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

What happens if I do not submit my reimbursement claim for the prior plan year by April 15?

If a reimbursement request is not submitted by the April 15 deadline for the prior year's account, funds you have contributed will be forfeited.